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Did blacklisting hurt the tax havens?

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Abstract

Purpose – The purpose of this paper is to test the widely-held assumption that blacklisting, such as that practiced by the Organization for Economic Cooperation and Development (OECD) and the Financial Action Task Force (FATF), affects the volume of financial activity associated with a tax haven.

Design/methodology/approach – ARIMA (autoregressive integrated moving average) analysis is used to explore changes across eight measures of in banking-associated activity that occurred when a tax haven was placed on, or removed from, one FATF and two OECD blacklists.

Findings – The results are highly varied. Most importantly, no substantial and consistent impact of blacklisting on banking investment in and out of the tax havens was found across 38 jurisdictions.

Practical implications – The role of "speech acts" – unconnected with other developments in the havens or foreign actions beyond rhetoric – may not be as important for tax haven investment as previously thought.

Originality/value – No rigorous and comprehensive study has previously been done of this important question.

Keywords Tax havens, Investments

Paper type Research paper

> [. . .] if a haven develops too unsavory a reputation as a home for "dirty money" or a haunt of organized crime and drug traffickers, then not only will legitimate money go elsewhere as respectable companies move their business to avoiding their reputations but so too will more sophisticated criminals who want to avoid any taint by association (Blum *et al.*, 1998, p. 36 cited in Sharman, 2006, p. 108).

Many observers have placed "reputation" high on the list of the attributes of successful tax havens, a set of jurisdictions that focus public policy on providing enticement to foreign investors through low taxes or transactional opacity. The importance of reputation has strong intuitive appeal: reputation is clearly regarded as closely bound to "trust," and those investing in the havens are typically making a very large bet that they will get their money back.

The thinking reflected in the opening quotation appears to have motivated an approach to the tax havens taken by the Financial Action Task Force (FATF) in the 1990s and into the new century. A major element of its program was to "name and shame" jurisdictions that were deemed insufficiently cooperative in the drive by major high-income countries to combat money laundering and, increasingly, terrorist finance.

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The Organization for Economic Cooperation and Development (OECD) "Harmful Tax Competition" (after 2000, "Harmful Tax Practices") project, which issued its first report in 1998 aimed at tax avoidance and evasion, employed the same technique. While both rich country initiatives also threatened further measures, the blacklists themselves were widely regarded as directly important. As one prominent commentator put it at the time, "... clearly in a practical and legal sense, the issuance of blacklists are (sic) not merely 'naming and shaming,' but the imposition of economic sanctions" (Zagaris, 2001, p. 524 cited in Sharman, 2006, p. 116). Abundant evidence suggests that many tax haven officials concurred in this assessment and feared that their attractiveness to investors would be significantly diminished[1].

The following examination takes this line of reasoning seriously and explores the extent to which attacks on reputation alone appear to have had any impact on the total banking investment in the affected jurisdictions.

1. Variety among the tax havens

Discussing tax havens as a group presents a challenge because writers differ widely over what the term is supposed to capture. At one extreme, some commentators refer to the USA as the world's largest tax haven for a number of reasons including the fact that certain state practices, notably those of Delaware, allow for a high degree of secrecy about the true ownership of foreign assets held there (Langer, 2000). Usually, however, the term refers to jurisdictions in which suspect activity looms large relative to the total economy and that gear their national policies towards one or more of the following types of activity: production havens use discriminatorily low-tax rates to attract real activity from abroad[2]. Sham havens serve as switching stations for corporations that want to keep their funds out of the immediate tax reach of their shareholders' states. Secrecy havens gain competitive advantage by allowing investors to disguise their ownership of offshore assets (Kudrle and Eden, 2003). Many havens combine two or all three of these functions[3].

The reputational fear captured by the opening quotation presumably applies both to secrecy haven activity because it typically involves tax evasion and money laundering and also to tax avoidance of the kind routinely practiced by large, traded US multinational corporations. These firms can defer the payment of what would otherwise be tax due – when foreign tax rates are below those of the USA – by employing a haven to redirect foreign earnings to other business locations abroad. The latter activity is overwhelming performed in a handful of high-income tax havens such as the Cayman Islands. But, the same tax havens that host massive amounts of legitimate financial investment of this kind are also believed to host the largest part of funds placed abroad for illegal purposes (Sullivan, 2007a).

The tax havens are often treated as a relatively homogenous group because so many of them are small in physical size and population, and the same 30-40 or so such jurisdictions appear on multiple lists. But, this is a big mistake. They differ dramatically from each other, whether the measure chosen is foreign direct investment or banking and portfolio investment[4]. The Cayman Islands with a population of about 45,000 (2005) had external banking liabilities of approximately $1.66 trillion at the end of 2006 and per capita income of $43,800 (2004), while Vanuatu in the South Pacific with a population of 212,000 (2007 estimate) could claim only 292 million in external banking liabilities and had a per capita income of $3,900 – less than 10 percent of the Caymans[5].

Using total external banking liabilities as a measure of tax haven activity, only five jurisdictions, the Caymans, Jersey, Singapore, the Bahamas, and Hong Kong, accounted for 83.7 percent of the total for "offshore centres" at the end of 2006, with 15 other jurisdictions accounting for the rest[6]. And there has been considerable stability over time. Although the role of Jersey has grown greatly in recent years, the other four jurisdictions accounted for 87 percent of total external bank liabilities in 1998[7].

2. The blacklists

The OECDs (1998) *Harmful Tax Competition* noted that tax havens could be identified by several characteristics. They:

(1) impose little or no tax on relevant income (an innocuous sorting criterion) along with one or more of;

(2) a lack of effective exchange of information;

(3) a lack of transparency; and

(4) "insubstantial" activity attached to the claim of haven location.

The points (2) and (3) are linked because, if no local laws compel appropriate transaction recording, there is no information for authorities to share (OECD, 1998, pp. 22-3). "Coordinated responses" were threatened against those jurisdictions that resisted removing policies that met the last three tax haven criteria. Low tax regimes *per se* were not a problem; aspects of their application often were. Jurisdictions came under attack if they abetted tax evasion through secrecy or tax avoidance through the recognition of nominal rather than real activity.

Harmful Tax Competition did not list offending jurisdictions. Such a list was to be prepared within a year of the first meeting of a "Forum" designed to operationalize the intentions of the report (OECD, 1998, p. 57). The list was presented in June of 2000, by which time several would-be targets had committed to complying with the OECD's demands. About 35 jurisdictions appeared on this first "blacklist." But shortly thereafter, the "insubstantial activity" criterion was first gutted and then removed completely. This largely removed the project's threat to the use of the havens by legitimate international business along with its political opposition to the project (Kudrle, 2008a, b). The attack on secrecy in the service of tax evasion remained.

A parallel effort by the developed countries against organized crime took the form of the FATF established following the Paris G-7 Summit in 1989[8]. Adopting the "name and shame" approach much favored by US Treasury Secretary Lawrence Summers (Sharman, 2006, p. 17), the FATF (2000a, b) on Money Laundering published a list of 15 non-cooperative territories in June – the same month as the OECD tax haven list appeared. These territories were tagged as delinquent due to:

- inadequate financial regulation including customer identification; the permission or mandating of excessive financial secrecy; and a lack of a suspicious transaction reporting system;
- other regulatory problems including the failure to require adequate information on the beneficial owners of various kinds of businesses;
- obstacles to international cooperation due to administrative and judicial constraint; and

- inadequate anti-money laundering budgets and agency activity (Reuter and Truman, 2004, p. 86).

The FATF added new states to its blacklist over the following 15 months while taking others off. There were six countries still on the non-cooperating list in July 2004: the Cook Islands, Myanmar, Indonesia, Nauru, Nigeria, and the Philippines (FATF, 2002, 2004)[9].

After 9/11, the FATF shifted its emphasis towards terrorist funding, and its prominence began to eclipse that of the OECD project. This reflected rebalanced concern in nearly every major polity towards security and away from whatever local privacy norms had prevailed previously. But local authorities found that the information gathering and sharing requirements for the two rich-country initiatives were quite similar. One observer estimated that "once jurisdictions had complied with the FATF, they had done 90 per cent of what the OECD expected of them" (Sharman, 2004, p. 6).

The two years after June, 2000 saw all but seven jurisdictions agree to comply with the diminished OECD demands. Most havens became "cooperating partners" through a declared willingness to enter into bilateral treaties for financial investment information that the havens committed to collect[9]. A second blacklist, regarded as a more pointed and potent attack than the first (Sharman, 2006, p. 123) appeared in May of 2002. The recalcitrants were Andorra, Liberia, Liechtenstein, Monaco, Nauru, the Marshall Islands and Vanuatu. Nauru and Vanuatu acceded in 2003. The Marshall Islands and Liberia relented in 2007 leaving only the tiny European semi-states as hold-outs.

The tax havens were also examined by yet a third substantial international effort spearheaded by high-income countries, the Financial Stability Forum (FSF). The Asian Financial crisis of 1997 highlighted the unsound practices of many regional financial institutions and the need for much greater supervision. The International Monetary Fund, acting on behalf of the FSF, conducted investigations of 44 jurisdictions, nearly half of which were not fund members (Reuter and Truman, 2004, pp. 87-8). Initial assessments produced three groups of jurisdictions: several of the largest tax havens were represented in the third group, those least adequately served "by infrastructures and supervisory practices, or/or a level of resources devoted to supervision and cooperation relative to the size of their activity" (FSF, 2000, p. 2).

The FSF report was released on April 5 (FSF, 2000), just a few weeks before the two previous lists. The most careful student of blacklisting, Sharman (2006, p. 35), concluded a couple of years ago, however, that "the FSF has yet to achieve the same impact or profile of the FATF and OECD initiatives . . . ". The original set of categories and jurisdictions was not updated, and on March 11, the FSF (2005) (which was absorbed into the IMF in 2000) declared that the original list was "no longer operative."

In fact, the FSF really just compared the offshore financial sectors with each other and did not present even its lowest category as anything like a "blacklist"[10]. Nevertheless, appearance in the third category along with appearance on both of the other lists would appear to be the strongest possible negative "speech act" against a jurisdiction.

Tables I and II present the OECD and FATF blacklists; there is considerable overlap. The date of appearance on both blacklists for several jurisdictions is the same (FATF, 2000a, b, June), but a number of other states were added to the FATF (2001) on Money Laundering list in two waves and the departure from one or both lists varies by jurisdiction. Those havens that appeared on both the OECD and the FATF lists are

Jurisdiction	Date of removal from blacklist
Andorra [a]	
Aruba	July 3, 2001
Bahamas	March 18, 2002
Bahrain	September 11, 2001
Barbados	January 31, 2002
Belize	March 20, 2002
British Virgin Islands	March 1, 2002
Cook Islands[b]	March 27, 2002
Dominica	March 6, 2002
Gibraltar	March 14, 2002
Maldives	February 7, 2002[d]
Marshall Islands [a,c]	August 7, 2007
Monaco[a,b]	
Montserrat[b]	March 7, 2002
Nauru[a]	December 12, 2003
Netherlands Antilles	December 14, 2000
Niue[b]	April 15, 2002
Panama	April 17, 2002
Samoa	April 18, 2002
Seychelles	February 26, 2001
St. Lucia	March 5, 2002[e]
St. Kitts and Nevis	March 6, 2002
Grenada	February 27, 2002
Guernsey	February 27, 2002
Isle of Man	December 14, 2000
Jersey	February 24, 2007
Liberia[a]	July 7, 2007
Liechtenstein[a]	
St Vincent and The Grenadines	February 27, 2002
Tonga	August 23, 2001
Turks and Caicos	March 8, 2002
US Virgin Islands[b]	March 11, 2002
Vanuatu[a]	May 20, 2003

Notes: [a]Indicates that the Jurisdiction was "Re-blacklisted" in May 2002; [b]No BIS data available; [c]BIS data were available only from the end of 2000 and statistical estimation proved impossible; [d]OECD announcement that Maldives is not a tax haven; [e]Adherence to OECD standards announced by St Lucia
Sources: OECD (2000, 2001, 2004, 2006)

Table I. The OECD "Blacklist" of June 2000

bolded and those on either list that also appear in the lowest FSF category are italicized[11].

3. What should the effect of blacklisting be?

Appearing on a blacklist could have three outcomes; the literature focuses on two. First, and most prominent, is the implicit hypothesis suggested at the beginning of the paper: if appearing on a blacklist lowers an investor's confidence in his ability to use the haven effectively for any purpose, then one would expect funds to be withdrawn. On the other hand, if the purpose the investor is served by continued laxity or recalcitrance in the face of successful external pressure for reform in competitive

Jurisdiction	Period on the blacklist
Bahamas	June 22, 2000-June 22, 2001
Cayman Islands	June 22, 2000-June 22, 2001
Liechtenstein	June 22, 2000-June 22, 2001
Panama	June 22, 2000-June 22, 2001
Israel	June 22, 2000-June 21, 2002
Lebanon	June 22, 2000-June 21, 2002
St Kitts and Nevis	June 22, 2000-June 21, 2002
Dominica	June 22, 2000-October 2002
Marshall Islands[a]	June 22, 2000-October 2002
Niue[b]	June 22, 2000-October 2002
Russia	June 22, 2000-October 2002
Cook Islands[b]	June 22, 2000-February 2005
Nauru	June 22, 2000-October 2005
Philippines	June 22, 2000-February 2005
St Vincent and the Grenadines	June 22, 2000-June 20, 2003
Egypt	June 22, 2001-February 2004
Guatemala	June 22, 2001-July 2004
Hungary	June 22, 2001-June 21, 2002
Indonesia	June 22, 2001-February 2005
Myanmar	June 22, 2001
Nigeria	June 22, 2001-June 2006
Ukraine	September 2001-February 2004
Grenada	September 2001-February 2003

Notes: [a]BIS data were available only from the end of 2000 and statistical estimation proved impossible; [b]no BIS data available
Sources: FATF (2000a, b, 2001, 2002, 2004, 2005, 2006)

Table II.
The FATF "Blacklist"

jurisdictions, then the volume of investment placed in the haven might be expected to increase. As Masciandaro (2005, p. 26) argues:

> The main difficulty for a lax financial regulation (LFR) country is credibly solving the commitment problem. Then, what is a better choice for an LFR country than having the international community – not exactly its closest friends – certifying a non-cooperative attitude [...][12].

Finally, and this is not a proposition formally stated in the literature – if investor behavior is overwhelming driven by factors other than the reputational attack made by the blacklist, there will no independent effect or at least none large enough to be detected.

4. What data should be relevant for testing the impact of appearing on a blacklist?

Studies that focus on the size of tax haven activity typically look either at the direct investment they attract (Hines and Rice, 1994; Hines, 2004; Dharmapala and Hines, 2006) or the financial investments that flow through them (Rose and Spiegel, 2007; Zoromé, 2007). Although blacklisting could affect both, the stock of direct investment is typically slower to respond to changes in the economic environment and can be expected to be based on knowledge of local conditions greater than that of those

drawing up blacklists. Hence, perturbation of some measure of financial investment would seem to provide the best test of the impact of blacklisting.

The Bank for International Settlements (BIS) has collected data on financial flows to and from the tax havens through the banking system since 1977. Data are published each quarter that are based on information from banks within the BIS area, i.e. those jurisdictions (40 by the end of 2006) that deal directly with the BIS. Data presented for other jurisdictions are all derived from those reports but include figures for nearly all of the jurisdictions appearing on the blacklists. Data are presented on the external position of reporting banks: their total assets and liabilities and their non-bank assets and non-bank liabilities *vis à vis* the jurisdictions of interest. Subcategories on total loans and total deposits as well as non-bank loans and non-bank deposits have been available since the end of 1995 for the same set of jurisdictions. All data are reported from the standpoint of the reporting country, so the meaning of the entry is the opposite when considered by the reported counterparty.

The IMF and the BIS cooperated in 1997 to produce the Coordinated Portfolio Investment Survey, which presents a far more complete picture of financial investment beyond the banking sector for much of the world than had been available up to that time (Ingves and Carson, 2003). This survey has been conducted annually beginning in 2001. These data cannot be employed for our purposes both because they began so recently and because they appear only annually (FATF, 2005, 2006).

Scholarship on tax haven external investment activity – other than direct investment – has employed several alternative statistical series, typically with little discussion of the grounds for choice. One can focus on overseas holdings of assets from tax havens or the holding of assets in the havens from abroad, and the focus can include inter-bank holdings or focus only on the activity of non-banks. In their pioneering study of the choice of investors across financial centers, Alworth and Andresen (1992) employ asset data for non-banks in various financial centers as the focus on their concern. Alworth and Masciandaro (2004, p. 209) employ a similar measure noting "deposits by non-banks . . . may likely capture tax evasion or money laundering"[13].

Huizinga and Nicodème (2004) employ external liabilities and deposits from non-banks as their principal variable in a study with a declared purpose similar to that of Alworth and Andresen. Reuter and Truman (2004, pp. 88-9) use data on total cross-border financial (banking system) assets to discuss the apparent stability of the top five offshore financial centers share over the period 1992-2003.

In his comprehensive attempt to define offshore centers Zoromé (2007, p. 6) presents some suggested alternative definitions that stress either assets or liabilities. Asset and liability data often differ considerably, apparently mainly because of gaps in coverage (Ingves and Carson, 2003, p. 24). For example, in the last quarter employed in this study, the last three months of 2006, those jurisdictions in the BIS category "Offshore Centers" showed a total liability Figure (from the standpoint of the BIS reporting banks) that was 27 percent higher that the asset number[14].

Regardless of the merits of one series over another for other purposes, the literature is silent about which measure is likely to respond most sensitively to an external event such as blacklisting. Close observers, however, assert that money launderers, tax evaders, and more above-board investors alike should be affected by the impact of blacklisting on a jurisdiction's reputation – although, as previously observed, perhaps not all in the same way. Moreover, no one has argued that blacklisting has an impact on

tax haven activity that leaves the banking system undisturbed. Finally, the impact of such an intervention could be expected to register to some extent in every series unless the effect were confined solely to that part of tax haven banking activity completely independent of a particular series, which seems unlikely a priori. The present study looks at total assets and liabilities and the associated component non-bank assets and liabilities as well as their counterparts for the loan and deposit data over the period for which the latter are available.

5. The technique

Attempts to employ conventional regression analysis to track financial flows in and out of a tax haven over time confront myriad possibly important independent variables. The search for an impact of blacklisting here will instead employ autoregressive, integrated, moving average (ARIMA) analysis developed by Box and Jenkins (1970). Rather than making the value of a dependent variable a function of the values of a series of independent variables in a single or multiple equation system, the dependent variable is related only to its own past values and stochastic error terms[15].

6. The results

Table III shows the results of the ARIMA analysis in which the simplest form of intervention is modeled: a dummy variable that captures the date of the appearance on a blacklist. The dependent variable is the share of the jurisdiction in the total value of the corresponding BIS category for "Offshore centres." This was done to remove common trends affecting all of the havens[16].

ARIMA results are reported for each jurisdiction on the OECD list, the FATF list, or both. The "begin" entry records the dummy result for the appearance of that jurisdiction on that blacklist and "end" its departure[17]. The "begin" intervention is also tested for one quarter earlier and one quarter later, and the most significant of the three coefficients is shown. Many of the jurisdictions that appear on both lists were tagged by the FATF in its first round, and, for those, only one dummy captures "begin." The corresponding coefficient and its standard error are presented in the OECD cell.

Readers may respond variously to the results. Those looking for confirmation of the idea that appearing on one of the blacklists will reduce the level of activity can certainly find some; there is less evidence of increased activity. But, it must be kept in mind that sixteen coefficients are presented for most jurisdictions (and for some 32 or more), and the chance occurrence that some will be significant with one sign or another is quite high. If the data series were independent – which, of course, they are not – 16 chances to mistakenly reject the null with confidence of 0.9 shrinks to 0.19. In fact, one would look most closely for consistency of significant results across the columns (and, where applicable, between rows for the same jurisdiction).

A priori, most would assume that appearing on a blacklist would have a stronger and more immediate effect than being removed from it. Hence, more attention may be warranted to the coefficients marked "begin." Of the 38 jurisdictions for which there were sufficient data for the analysis, only eight jurisdictions had no significant "begin" coefficients, and of this group three had significant "end" coefficients, so only five jurisdictions showed no signs of response at all by this very loose standard. A closer look, however, reveals ten jurisdictions with significant inconsistencies: three showed one kind of impact from the OECD blacklist and another from the FATF listing; six

Table III. ARIMA blacklist results

Country	Black list	External Assets		External Liabilities		Non-Bank Assets		Non-Bank Liabilities		External Loans		External Deposits		Non-Bank Loans		Non-Bank Deposits	
		Begin	End	Begin	End	Begin	End	Begin	End	Begin	End	Begin	End	Begin	End	Begin	End
Andorra	OECD	-0.002** (0.001)		-0.017 (0.013)		-0.001 (0.087)		0.0004 (0.02)		-0.001 (0.019)		0.002 (0.003)		0.0002 (0.004)		0 (0.001)	
	May 2002	0.002 (0.002)		0.008 (0.013)		0.004 (0.086)		0.002 (0.02)		0.004 (0.017)		-0.0005 (0.003)		0.005 (0.013)		0 (0.002)	
	FATF																
Aruba	OECD	-0.002 (0.002)	0.003 (0.003)	-0.002 (0.009)	-0.001 (0.009)	-0.045 (0.047)	0.04 (0.048)	-0.009 (0.078)	0.007 (0.097)	-0.011*** (0.002)	0.009*** (0.002)	-0.002* (0.001)	0.001 (0.001)	-0.052*** (0.012)	0.044** (0.017)	-0.008*[a] (0.005)	0.004 (0.004)
	FATF																
Bahamas	OECD	0.057 (0.162)	0.414 (0.229)	0.289 (0.463)	0.468 (0.815)	0.3 (0.416)	0.344 (3.042)	-0.142 (0.271)	0.136 (1.405)	0.593 (0.485)	0.994 (0.787)	-0.271 (0.209)	0.153 (0.238)	0.424 (0.335)	0.655 (1.519)	-0.27** (0.133)	0.027 (0.169)
	FATF	S	-0.45 (0.362)	S	-0.725 (0.842)	S	-0.704 (3.094)	S	-0.126 (1.445)	S	-2.016** (0.855)	S	0.107 (0.391)	S	-1.085 (1.477)	S	0.231 (0.246)
Bahrain	OECD	-0.015 (0.024)	0.015 (0.029)	-0.039 (0.23)	0.063 (0.291)	0.026 (0.122)	-0.014 (0.167)	-0.008 (0.541)	-0.003 (0.563)	-0.091 (0.107)	-0.005 (0.099)	-0.097 (0.092)	0.059 (0.082)	-0.039 (0.06)	0.032 (0.058)	-0.006 (0.023)	0.0005 (0.019)
	FATF																
Barbados	OECD	-0.034 (0.027)	0.024 (0.029)	-0.028* (0.015)	0.043*** (0.016)	-0.009 (0.085)	0.039 (0.091)	-0.011 (0.011)	0.02 (0.015)	-0.048 (0.072)	0.049 (0.071)	-0.015 (0.048)	0.021 (0.049)	0.012 (0.017)	0.046 (0.045)	0.0002 (0.021)	0.007 (0.019)
	FATF																
Belize	OECD	0.004** (0.002)	-0.005* (0.003)	0.001 (0.003)	0.001 (0.003)	-0.011 (0.009)	0.007 (0.016)	-0.001 (0.007)	0.003 (0.007)	-0.013 (0.016)	0.01 (0.015)	-0.004*** (0.001)	0.003*** (0.001)	-0.051 (0.039)	0.044 (0.036)	-0.008 (0.03)	-0.006 (0.03)
	FATF																
British West Indies	OECD	-0.015* (0.009)	0.126 (0.082)	-0.038 (0.036)	-0.153 (0.488)	-0.049** (0.022)	0.311 (0.221)	-0.11 (0.081)	0.194 (0.658)	-0.082 (0.122)	-0.286* (0.16)	-0.024 (0.058)	-0.386 (0.279)	-0.029 (0.067)	-0.303 (0.408)	-0.261 (0.242)	1.308*** (0.492)
	FATF	S	-0.111 (0.077)	S	0.23 (0.499)	S	-0.261 (0.217)	S	-0.039 (0.591)	S	0.343** (0.159)	S	0.409 (0.31)	S	0.333 (0.411)	S	-1.063** (0.525)
Cayman Islands	OECD																
	FATF	-0.178 (0.131)	0.19 (0.154)	0.072 (0.156)	-0.103 (0.184)	0.098 (0.407)	0.034 (0.421)	-0.038 (0.16)	-0.037 (0.189)	-0.342 (0.538)	0.296 (0.5)	0.386 (0.71)	-0.407 (0.75)	-0.033 (0.349)	0.097 (0.354)	0.205 (0.247)	-0.198 (0.227)
Dominica	OECD	0 (0.0001)	0 (0.0001)	-0.0001 (0.0002)	0.0001 (0.0002)	0.0001 (0.0005)	-0.001*** (0.0004)	0.001 (0.004)	-0.001 (0.002)	0 (0.0003)	0 (0.0002)	0 (0.001)	0 (0.001)	0.0005 (0.003)	-0.002 (0.004)	-0.0003 (0.002)	0.0003 (0.001)
	FATF																
Egypt	OECD																
	FATF	-0.001 (0.013)	0.005 (0.016)	-0.017 (0.065)	0.069 (0.051)	0.016 (0.26)	0.023 (0.354)	-0.007** (0.003)	0.012** (0.006)	0.011 (0.028)	-0.008 (0.024)	0.027 (0.021)	0.046* (0.028)	0.069 (0.121)	-0.067 (0.093)	-0.006 (0.004)	0.01* (0.006)

(*continued*)

Country	Black list	External Assets		External Liabilities		Non-Bank Assets		Non-Bank Liabilities		External Loans		External Deposits		Non-Bank Loans		Non-Bank Deposits	
		Begin	End	Begin	End	Begin	End	Begin	End	Begin	End	Begin	End	Begin	End	Begin	End
Gibraltar	OECD	0.012 (0.012)	−0.023** (0.01)	−0.005 (0.019)	0.002 (0.024)	−0.01* (0.005)	0.01 (0.007)	0.017 (0.032)	−0.031 (0.037)	−0.014 (0.046)	0.001 (0.028)	0.001 (0.022)	0.003 (0.022)	−0.043 (0.088)	0.041 (0.091)	−0.003 (0.006)	0.005 (0.004)
	FATF																
Grenada	OECD	0.0003** (0.0002)	−0.001** (0.0002)	0 (0.0003)	0 (0.001)	−0.0001 (0.0001)	0 (0.0002)	0 (0.005)	0 (0.005)	0.001**[a] (0.0003)	−0.001** (0.0004)	0 (0.001)	0 (0.001)	0.001*** (0.0002)	−0.002*** (0.0002)	0.001 (0.006)	−0.001 (0.006)
	FATF	0 (0.0004)	0 (0.001)	−0.001* (0.0005)	0 (0.001)	−0.0002 (0.0001)	0.0002 (0.0002)	0 (0.004)	−0.001 (0.005)	0 (0.005)	0 (0.001)	−0.001 (0.001)	0.001 (0.001)	−0.0004 (0.0004)	0.0004 (0.0003)	0.001 (0.006)	−0.001 (0.006)
Guatemala	OECD																
	FATF	−0.006 (0.005)	0.003 (0.013)	0.005 (0.043)	−0.002 (0.102)	−0.002 (0.001)	0.004 (0.003)	−0.021 (0.18)	0.008 (0.355)	−0.0001 (0.001)	0.001 (0.001)	0.002 (0.007)	−0.001 (0.007)	−0.001 (0.002)	0.005 (0.004)	−0.013 (0.009)	0.012 (0.01)
Guernsey	OECD	−0.038*** (0.004)	0.013** (0.006)	−0.194***[a] (0.013)	0.186*** (0.013)	0.074 (2.428)	0.086 (2.396)	0.007 (1.394)	0.015 (1.671)	−0.022***[a] (0.001)	0.029***[a] (0.001)	−0.035 (0.098)	0.065 (0.05)	0.023 (0.015)		−0.015 (1.519)	0.047 (0.062)
	FATF																
Hungary	OECD																
	FATF	0.022 (0.113)	0.082 (0.14)	0.035 (0.088)	−0.014 (0.103)	−0.047 (0.225)	0.074 (0.236)	0.018** (0.008)	−0.02** (0.008)	0.008 (0.009)	−0.01 (0.009)	−0.003 (0.018)	0.006 (0.019)	−0.048 (0.075)	0.052 (0.075)	0.009 (0.023)	−0.005 (0.021)
Indonesia	OECD																
	FATF	−0.117** (0.053)	0.097** (0.048)	−0.002 (0.468)	0.022 (0.525)	0.03 (0.021)	0.001 (0.032)	−0.019 (0.129)	0.016 (0.299)	−0.139*[a] (0.077)	0.099**[a] (0.044)	0.003 (0.003)	−0.001 (0.004)	0.073*[a] (0.039)	−0.016 (0.045)	0.005*[a] (0.003)	−0.004 (0.004)
Israel	OECD																
	FATF	0.004 (0.029)	0.04 (0.125)	0.034 (0.102	0.032 0.421	−0.066 (0.423)	0.08 (1.565)	−0.072 (0.084)	0.067 (0.286)	−0.02 (0.064)	0.017 (0.052)	−0.016** (0.007)	0.016*** (0.007)	0.006 (0.045)	−0.002 (0.042)	−0.139* (0.078)	0.051 (0.077)
Isle of Man	OECD	0.009 (0.011)		0.017 (0.022)		−0.001***[a] (0.0001)				0.013 (0.012)		0.016 (0.022)				0.006 (0.008)	
	FATF																
Jersey	OECD	0.096 (0.087)		−0.023***[a] (0.001)	0.01 (0.01)	0.132 (0.178)		0.025 (0.021)		0.062 (2.87)		−0.013 (1.17)		0.047** (0.023)		0.018 (0.101)	
	FATF																
Lebanon	OECD																
	FATF	−0.013 (0.021)	0.014 (0.028)	−0.011 (0.019)	0.01 (0.03)	−0.032 (0.243)	0.052 (0.446)	0.063 (0.258)	−0.018 (0.32)	−0.027***[a] (0.006)	0.015** (0.006)	−0.02 (0.016)	0.03* (0.018)	−0.071** (0.032)	0.056** (0.025)	0.005 (0.061)	−0.01 (0.063)
Liberia	OECD	−0.001 (0.049)		−0.002 (0.01)		0.386 (1.188)		−0.03 (0.434)		−0.058 (0.057)				−0.06 (0.115)		0.033 (0.087)	
	May 2002	0.016 (0.103)		0.003 (0.014)		0.061 (1.587)		0.102 (0.604)		0.002 (0.055)				0.052 (0.095)		−0.038 (0.078)	
	FATF																

(continued)

Table III.

Country	Black list	External Assets		External Liabilities		Non-Bank Assets		Non-Bank Liabilities		External Loans		External Deposits		Non-Bank Loans		Non-Bank Deposits	
		Begin	End	Begin	End	Begin	End	Begin	End	Begin	End	Begin	End	Begin	End	Begin	End
Liechtenstein	OECD	−0.003 (0.104)		−0.019 (0.031)		0.047 (2.014)		0.007 (0.013)		−0.01 (0.01)		0.034**a (0.014)		−0.016 (0.063)		0.002 (0.017)	
	May 2002	−0.01 (0.153)		0.044 (0.027)		0.088 (3.322)		−0.024 (0.019)		0.011 (0.012)		0.027 (0.066)		0.009 (0.078)		−0.019 (0.018)	
	FATF	S	0.016 (0.112)	S	−0.045 (0.035)	S	−0.083 (4.22)	S	0.021* (0.01)	S	0 (0.008)	S	0.013 (0.06)	S	−0.012 (0.055)	S	0.018* (0.01)
Maldives	OECD	0.0001 (0.0002)	0.0002 (0.0002)	0 (0.0002)	−0.0001 (0.0004)	−0.0001 (0.002)	0.0004 (0.002)	0.001 (0.003)	−0.0001 (0.003)	0 (0.0002)	0.0005* (0.0003)	0.0002 (0.0002)	−0.0002 (0.0001)	−0.001 (0.001)	0.001 (0.001)	0 (0.0002)	0 (0.0002)
	FATF																
Myanmar	OECD																
	FATF	0 (0.0001)		0.001 (0.001)		0.001** (0.0002)		0.0002 (0.001)		−0.0001 (0.0004)		0 (0.0004)		0.001 (0.001)		0 (0.001)	
Nauru	OECD	0 (0.0001)	0.002 (0.003)	−0.001** (0.001)	0 (0.014)	0 (0.067)	0 (0.679)	−0.005* (0.003)	0 (0.045)	0 (0.036)	0 (0.56)	0 (0.0003)	0 (0.0001)	0 (0.001)	0 (0.008)	0.001 (0.001)	0 (0.0004)
	May 2002	0 (0.0001)		0.001 (0.003)		0 (0.174)		0.004 (0.006)		0 (0.51)		0 (0.0002)		0 (0.002)		0 (0.001)	0 (0.0002)
	FATF	S	−0.003 (0.002)	S	0 (0.018)	S	0.001 (0.67)	S	0 (0.059)	S	0 (0.212)	S	0 (0.00003)	S	0 (0.008)	S	
Netherlands Antilles	OECD	−0.327**a (0.149)	0.27*a (0.148)	−0.749***a (0.152)	0.644***a (0.157)	−0.514*** (0.201)	0.479*** (0.165)	−0.224 (0.415)	−0.112 (0.476)	0.021 (0.122)	−0.007 (0.104)	−0.056 (0.103)	0.085 (0.101)	0.288 (0.547)	−0.266 (0.454)	−0.008 (0.334)	−0.148 (0.315)
	FATF																
Nigeria	OECD																
	FATF	0.007 (0.204)	0.006 (0.546)	0.023 (0.312)	0.047 (0.679)	−0.007 (6.366)	0.017 (22.297)	−0.001 (0.002)	0 (0.012)	−0.001 (0.001)	−0.001 (0.005)	0.001 (0.007)	0.025 (0.017)	−0.009*** (0.003)	−0.01 (0.014)	−0.003 (0.003)	−0.002 (0.015)
Panama	OECD	−0.056 (2.221)	0.042 (0.997)	0.045 (1.292)	0.128 (0.52)	−0.037 (0.062)	−0.059 (0.065)	0.083 (0.069)	0.122 (0.049)	−0.129*** (0.045)	0.066 (0.158)	0.045 (0.05)	−0.007 (0.047)	−0.331** (0.168)	−0.117 (0.133)	−0.082 (0.207)	0.14 (0.093)
	FATF	S	0.025 (1.427)	S	−0.092 (1.025)	S	0.113 (0.094)	S	−0.167 (0.085)	S	−0.017 (0.155)	S	−0.016 (0.068)	S	0.403** (0.202)	S	−0.052 (0.452)
Philippines	OECD																
	FATF	−0.009 (0.02)	0.0001 (0.064)	−0.001 (0.006)	0.004 (0.017)	0.008 (0.006)	−0.008 (0.013)	0.001 (0.002)	0.003 (0.005)	−0.08*** (0.025)	0.031 (0.035)	−0.052*** (0.014)	0.05 (0.046)	−0.161*** (0.058)	0.034 (0.051)	−0.019 (0.019)	0.034 (0.035)
Russia	OECD																
	FATF	0.012 (0.018)	0.002 (0.022)	−0.009 (0.127)	0.214** (0.102)	−0.22 (0.207)	0.174 (0.261)	−0.167 (0.243)	0.163 (0.269)	0.001 (0.088)	0.027 (0.081)	0.014 (0.159)	0.199* (0.113)	−0.303* (0.169)	0.18 (0.15)	−0.073 (0.056)	0.045 (0.039)
Samoa	OECD	0.0004 (0.001)	0.001 (0.001)	0.004* (0.002)	−0.001 (0.002)	0.002 (0.003)	0.002 (0.003)	0.014*** (0.005)	−0.005 (0.003)	0.0003 (0.0003)	0.001*a (0.0006)	0.004 (0.006)	−0.001 (0.001)	0.0003 (0.023)	−0.0002 (0.002)	−0.001 (0.002)	0.0005 (0.002)
	FATF																

(*continued*)

Table III.

Country	Black list	External Assets		External Liabilities		Non-Bank Assets		Non-Bank Liabilities		External Loans		External Deposits		Non-Bank Loans		Non-Bank
		Begin	End	Begin	End	Begin	End	Begin	End	Begin	End	Begin	End	Begin	End	Begin
Seychelles	OECD	−0.0002 (0.001)	0.001 (0.001)	−0.0004 (0.009)	0.002 0.009	−0.001 (0.023)	0.002 (0.023)	−0.0004 (0.002)	0.001 (0.003)	−0.001 (0.0004)	0.001 (0.0004)	−0.0002 (0.018)	0.002 (0.018)	−0.003** (0.001)	0.003** (0.001)	−0.003 (0.088)
	FATF															
St. Lucia	OECD	0 (0.0001)	0 (0.0001)	0.0003* (0.0002)	0 (0.0004)	0 (0.001)	0 (0.001)	0.001*[a] (0.0004)	−0.0001 (0.001)	0.0001 (0.0002)	−0.0001 (0.0002)	0.0001 (0.0003)	0.0001 (0.0004)	0 (0.001)	0 (0.001)	0.0004 (0.001)
	FATF															
St. Vincent & Grenadines	OECD	−0.002*[a] (0.001)	0.002 (0.001)	−0.004 (0.003)	0.003 (0.006)	−0.002 (0.001)	0.003 (0.003)	−0.015*[a] (0.008)	0.007 (0.009)	−0.003 (0.003)	0.002 (0.002)	0 (0.008)	0.003 (0.017)	−0.013 (0.012)	0.004 (0.008)	0.017*[a] (0.009)
	FATF	S	0 (0.001)	S	0.004 (0.006)	S	−0.001 (0.002)	S	0.016 (0.011)	S	−0.001 (0.001)	S	0.003 (0.015)	S	0.002 (0.005)	S
Tonga	OECD	0 (0.00003)	0 (0.00002)	0 (0.0002)	0 (0.0003)			−0.0001 (0.0004)	0 (0.001)	0.0001* (0.0001)	−0.0001* (0.0001)	0.0001 (0.0002)	−0.0002 (0.0002)			0 (0.0001)
	FATF															
Turks & Caicos Islands	OECD	−0.001 (0.002)	0.001 (0.002)	−0.0004 (0.0003)	0.0004 (0.0005)	−0.001 (0.014)	0.001 (0.017)	−0.002 (0.001)	0.002 (0.002)	−0.001 (0.002)	0.001 (0.002)	0.0003 (0.001)	−0.0001 (0.001)	−0.009* (0.005)	0.004 (0.005)	0 (0.005)
	FATF															
Ukraine	OECD															
	FATF	0.001 (0.001)	0.002 (0.002)	0.013 (0.019)	0.006 (0.021)	0.011 (0.027)	0.019 (0.026)	−0.004 (0.003)	0.006 (0.005)	0.004 (0.004)	0.026*** (0.007)	0.011 (0.013)	0.017 (0.013)	0.004 (0.003)	−0.0001 (0.006)	0.003 (0.006)
Vanuatu	OECD	−0.001 (0.002)	0 (0.004)	−0.015 (0.021)	0.018 (0.014)	0.015 (0.269)	−0.001 (0.769)	0.003 (0.009)	−0.003 (0.024)	0.001 (0.021)	0.002 (0.022)	0 (0.015)	0.003 (0.068)	0.004 (0.005)	0 (0.001)	0.002 (0.002)
	May 2002	0.001 (0.005)		−0.005 (0.025)		0.001 (0.774)		0.001 (0.022)		−0.004 (0.026)		−0.003 (0.042)		−0.004 (0.004)		−0.002 (0.002)
	FATF															

ARIMA coefficients for intervention dummies are shown in each cell with the standard deviation given in parentheses

* significant at .10 level (two-tailed)

** significant at .05 level (two-tailed)

*** significant at .01 level (two-tailed)

[a] the coefficient presented is for a quarter immediately adjacent to the one in which the indicated announcement was made

S signifies the simultaneous appearance of the jurisdiction on both blacklists; the estimated coefficient is reported in the OECD cell

Data source: Bank for International Settlements, *Quarterly Review*, Tables 6a, 6b, 7a, 7b, various issues

Table III.

showed an inconsistent result across the various investment measures for the same blacklisting (of either kind), and one showed both inconsistencies.

Of the 23 jurisdictions that had any consistent significant results, there were eight that had one significant coefficient (either "begin" or "end"), six that had two (of either kind), and nine that had three or more. Of the jurisdictions with any consistent significant results, 18 were "expected,", i.e. investment was depressed by blacklisting or revived by its removal, while five were "perverse" – consistent with Masciandaro's suggestion that some jurisdictions may actually embrace blacklisting. The results can, of course, be considered in many other ways.

Both of the blacklists include many states not designated as "offshore" by the BIS. And two of the five "offshore centres," always recognized as tax havens, Hong Kong and Singapore, were not included on the OECD list for political reasons (Kudrle, 2008a). Of the three other largest "offshore centres," the Caymans shows no impact and both the Bahamas and Jersey an inconsistent impact.

The magnitudes of the significant coefficients differ enormously. It would be expected that their absolute magnitude would be positively correlated with the share of tax haven activity because the coefficient estimates the change in share associated with the intervention. Nevertheless, some of the coefficients are much too large to be believed. In a couple of cases, the Bahamas and the British West Indies, these results were associated with inconsistent results, anyway. But part of the Guernsey result also shows the problem. The differencing (for stationarity) and lag choices for each jurisdiction were done very carefully, but the ARIMA literature warns of the great sensitivity of numerical results to exact specification[18].

7. Conclusion

Considering all of the results together, the evidence does not suggest that blacklisting made an important systematic difference in the volume of banking system-related tax haven fortunes. This does not mean that the fear of the impact of blacklisting on capital flight may not have provided part of the impetus for the early acceptance of OECD or FATF prescriptions or the willingness of some jurisdictions to cooperate later on. It is also possible that the blacklisting had general effects too subtle to register immediately, but the burden of proof lies with those trying to make such a case. A more likely interpretation appears to be that investors based their behavior largely on factors other than whether or not a jurisdiction had been officially castigated abroad. Reputation, of course, can be both damaged and bolstered in other ways. Nonetheless, much participant testimony and careful scholarship about it suggested that blacklisting was very important for reputation and likely produced negative effects.

These results must raise doubts about the direct importance of "speech acts" on the ability of tax havens to attract and hold foreign financial investment when such acts are not directly linked with something more tangible – either real developments in the havens or policy action beyond rhetoric from abroad. The havens remain highly vulnerable to the sticks and stones that foreigners might ultimately deploy, but both participants and academic commentators may have overstated the power of words alone to inflict harm.

Notes

1. Sharman (2006 pp. 101-126), especially Chapter 4, extensively documents the extent to which "reputation" has been regarded as critical by both commentators and tax haven governments and also the extent to which "blacklisting" has been widely believed by both to drive investment away. But some jurisdictions also thought blacklisting would increase investment.
2. This would exclude countries that simply use low or zero corporate tax rates throughout their economies for real activity.
3. Modern communication allows the local value-added of both sham and secrecy havens to be low or negligible; most or virtually all nominally haven activity may really take place "onshore."
4. They also differ widely in the mix of financial activity in which they specialize. For example, insurance activity is relatively much more important in some havens that in others, see, Suss *et al.* (2002).
5. Vanuatu is not quite the bottom. Jason Sharman reminded me that one sometime haven, Nauru, had no functioning banks in 2008.
6. This is the group that the BIS refers to as "Offshore centres." The term, "offshore centres" like "tax haven" is used variously. Some writers distinguish between the two by employing "offshore" to suggest sequestration from the rest of the hosting economy, whether large or small, reserving "tax haven" for jurisdictions with uniformly low corporate tax rates or lax financial recording and secrecy. The BIS usage of "offshore" appears to focus on jurisdictions in which either "sham" or "secrecy" investments loom relatively large in the total (relatively small) economy. Informal histories of some of the largest havens suggest increasing expertise and other economies of accumulated activity as well as some economies of scale.
7. Informal histories of some of the largest havens suggest increasing expertise and other economies of accumulated activity as well some economies of scale. These advantages, combined with an absence of concern for portfolio diversification among havens by customers (which has apparently not been studied but is not known to be important) contributes both to stable market shares and high entry barriers.
8. The FATF was housed with the OECD, but its tasks explicitly excluded tax issues (Reuter and Truman, 2004, p. 81). The legal seriousness of tax evasion including its criminality varies widely among the OECD countries.
9. Many commitment letters included language qualifying acceptance of the demands with insistence that all OECD countries accept the same conditions, the so-called "Isle of Man" clause in recognition of its deviser. But the bilateral information exchange treaties that have since been struck to implement the OECD's model bilateral tax information agreement are not qualified in that way. The Isle of Man itself had nine bilateral tax information exchange agreements in place by late 2007 (OECD, 2007). Panama has continued to resist cooperation using "Isle of Man" arguments.
10. "The categorization does not constitute judgments about any jurisdiction's adherence to international standards, and the inclusion in a particular group does not imply that such a categorization applies to all sectors of the financial system within an OFC" (FSF, 2000, p. 2).
11. This study does not consider numerous national blacklists, which have been the subject of considerable study (Sharman and Rawlings, 2006).
12. Sharman (2006, p. 124) documents this motivation over a limited period for Vanuatu.
13. But interbank accounts can also be vehicles for such activity. See, for example Sullivan's (2007b) discussion of Swiss fiduciary accounts held in Jersey.

14. In their recent study of the impact of tax haven activity, Rose and Spiegel (2007) concentrate on CPIS asset data.
15. For an introductory discussion, see Box *et al.* (1994, Chapter 1).
16. Various tests were also performed to see if the new attention to the havens as a whole caused a change in their overall utilization. No effects were found (Kudrle, 2008a). The Offshore total is used as a serviceable control for total tax haven activity even though it excludes some of the jurisdictions blacklisted; the quantitative significance of the omission is not large.
17. A conventional dummy is the simplest form of what Box *et al.* (1994, pp. 373-407) call a "transfer function."
18. This may be a reason that only the significance levels and not the values of coefficients resulting from ARIMA intervention analysis are sometimes reported (see for example, Canada Department of Justice, 1996, pp. 53-64).

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